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SUBJECT: WASTING THE WINDFALL: A BREAKDOWN OF KUWAIT'S
BUDGET SURPLUS

REF: KUWAIT 852

¶1. (SBU) Summary and Comment: Kuwait's fiscal surplus for FY 2006/7 was \$20 billion, after the allocation of 10 percent of revenues to the Reserve Fund for Future Generations (RFFG). While revenues increased by 12.8 percent, mostly due to high oil prices, fiscal expenditures grew by a whopping 60 percent over the previous year. Two extraordinary transfer payments (a transfer to the social security fund and a direct payment granted by the Amir to all Kuwaiti citizens) were the largest contributors to the growth in expenditures, but even when these are excluded, expenditures grew by 24% mostly due to increased expenses on wages and fuel for power generation. Overall, with the exception of the allocation to the RFFG, the Government seems to be wasting most of its windfall oil revenues on handouts to Kuwaiti citizens rather than investing in projects that would contribute to sustainable economic growth. While salary expenses have risen sharply, the Government disbursed only 34% of its projected allocation for investment in important and long-delayed infrastructure maintenance and development projects. On a more positive note, foreign aid grew by 152% over last year, mostly due to assistance provided to Lebanon, Yemen, and the Palestinian Authority. End Summary.

\$20 Billion Fiscal Surplus for FY 2006/7

¶2. (U) According to preliminary figures released by Kuwait's Ministry of Finance for fiscal year 2006/07, which ended on March 31, the overall budget surplus was approximately \$20 billion after the allocation of 10 percent of revenues to the Reserve Fund for Future Generations. Though this represents a significant surplus (equivalent to about 23 percent of GDP), it is 21 percent less than that of 2005/6.

No Decrease in Dependence on Oil Revenue

¶3. (U) Oil revenues, which once again accounted for approximately 95 percent of total revenues, grew by 26 percent over the last year. With the average oil price hovering around \$58/barrel rather than the \$36/barrel used in budget projections, total revenue reached 181 percent of its projected figure. Production levels remained unchanged at about 2.5 million barrels per day. Non-oil revenue, though still only 5 percent of total revenue, grew by a noteworthy 26 percent over the last year.

¶4. (U) Growth in "miscellaneous revenues and fees" accounted for 80 percent of the total increase in non-oil revenue.

Revenues from income and profit taxes also saw strong growth, with tax receipts from Kuwait Stock Exchange-listed companies and from foreign companies up by 39 and 30 percent, respectively. (Note: Kuwaiti-owned companies pay only a 5 percent tax which is evenly divided between zakat and contributions to the Kuwait Foundation for the Advancement of Science. Foreign-owned companies, however, pay an income tax rate of 55 percent.) Service charges accounted for 44 percent of total non-oil revenue.

Expenditures Up - Transfers, Wages, Utilities Expenses

15. (U) Total expenditures grew by 60 percent over last year. This figure is somewhat distorted by an extraordinary one-time transfer of \$8.4 billion to the Public Institution for Social Security (PIFSS) to cover unfunded liabilities and a \$710 million Amiri grant distributed among all Kuwaiti citizens. However, even when these items are excluded, expenditures still show remarkable growth of 24 percent over the previous year.

16. (SBU) The growth in expenditures is primarily due to increased expenses, rather than increased investment. Spending at the Ministry of Electricity and Water grew by 43 per cent on the previous year. The bulk of this was spent on fuel for power generation. Wages and salaries jumped by 17 percent, accounting for 30 percent of total expenditures if the extraordinary PIFSS transfer and Amiri grant are disregarded. The most remarkable increase was at the Ministry of Health, where wages and salaries grew by 66 percent year-on-year. The cost of health care treatment abroad rose by 57 percent to \$95 million.

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17. (U) Foreign aid grew by 152 percent, reaching \$350 million. Much of this was assistance provided to Lebanon through the Kuwait Fund and the Kuwaiti Red Crescent Society during the Israel-Lebanon conflict during summer 2006. The Government of Kuwait also contributed significant amounts of foreign aid to Yemen and to the Palestinians.

Gross Under-spending on Infrastructure Development

18. (SBU) Excluding the Amiri grant and PIFSS transfer, the government spent only 67 percent of its projected budget largely due to its failure to launch a number of major projects including power plants, civil infrastructure, a major refinery, desalination plants, and port facilities (reftel). Growth in spending on development projects, maintenance, and land purchases slowed to 2 percent from 13.8 percent a year ago. Only 34 percent of the projected budget for development projects was actually spent. Land purchases accounted for 24 percent of the overall growth in this spending category. Four ministries actually saw spending on projects and maintenance decline: the Ministry of Public Works (-7.5 percent), the Ministry of Public Health (-47 percent), the Ministry of Higher Education (-77 percent), and the Ministry of Communication (-4 percent).

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